

Message Text

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ACTION INR-07

INFO OCT-01 EUR-12 EA-07 IO-11 ISO-00 COME-00 SP-02

USIA-06 AID-05 EB-07 NSC-05 CIEP-01 TRSE-00 SS-15

STR-04 OMB-01 CEA-01 AGR-05 XMB-02 CIAE-00 NSAE-00

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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 9121

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY BERN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

AMEMBASSY HELSINKI

AMEMBASSY STOCKHOLM

AMEMBASSY VIENNA

AMEMBASSY TOKYO

USMISSION NATO

USMISSION GENEVA

AMEMBASSY BERLIN

AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

AMEMBASSY MOSCOW

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

AMEMBASSY WARSAW

C O N F I D E N T I A L OTTAWA 1042

E.O. 11652: GDS

TAGS: EEWT, EFIN, EINV, ETRAD, XG, XT, CA

SUBJ: FINANCING EASTERN EUROPE'S TRADE WITH THE WEST

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REF: STATE 038308

1. EMBOFF DISCUSSED SUBJECT WITH CHIEF OF EAST EUROPEAN DIVISION OF DEPARTMENT OF INDSTRY, TRADE AND COMMERCE (ITC), ASSISTANT DIRECTOR (FOR EAST EUROPE) OF EUROPEAN DIVISION OF EXPORT DEVELOPMENT CORPORATION (EDC), AND SENIOR ECONOMIST AT EDC RESPONSIBLE FOR CREDIT EVALUATION OF EAST EUROPEAN COUNTRIES.

2. WHILE ALL KNEW OF GROWING HARD-CURRENCY DEFICIT OF EE COUNTRIES, NONE WAS AWARE OF ANY REQUEST FOR RESCHEDULING OR CONSIDERED SITUATION CAUSE FOR PARTICULAR ALARM. THEY EMPHASIZED THAT CANADA HAD ONLY IN RECENT YEARS INITIATED EFFORTS TO GET INTO THE MARKET, AND THUS ANY CREDIT-RELATED SLOWDOWN OF IMPORTS BY EE COUNTRIES WAS DIFFICULT TO PERCEIVE ON COMPARATIVE BASIS. THEY EXPRESSED SATISFACTION WITH MODEST BUT STEADILY INCREASING CANDIAN EE TRADE, MENTIONING IN PARTICULAR RECENTLY-CLOSED DEAL TO EXTEND POLAND 500 MILLION DOLLAR CREDIT FOR PURCHASE AND CONSTRUCTION OF PULP AND PAPER MILL. (FYI: ITC OFFICIAL SAID THAT SAME AMOUNT OF CREDIT, THOUGH NOT RESTRICTED AS IN CASE OF POLAND TO FORESTRY INDUSTRY, HAD BEEN EXTENDED TO USSR, WITH MAJOR PURCHASES STILL UNDER NEGOTIATION. HE SAID, HOWEVER, THAT OF APPROXIMATE ONE BILLION DOLLAR KITTY SET ASIDE FOR EAST EUROPE, POLAND AND USSR "HAVE IT ALL," WITH ONLY MINIMAL AMOUNT TO OTHER EE COUNTRIES).

3. NOTWITHSTANDING ABOVE, ITC OFFICIAL SPECULATED THAT HARD CURRENCY DEFICITS WOULD HAVE INFLUENCE IN COMING YEAR. HE PREDICTED GREATER GENERAL SELECTIVITY AMONG EE BUYERS, SHIFT AWAY FROM WHOLESALE PURCHAEs OF NEW PLANTS AND MORE EMPHSIS ON MODERNIZATION OF EXISTING FACILITIES, AND PERHAPS GREATER EFFORT TO PUSH PRODUCT RATHER THAN CASH PAYMENT FOR PURCHASES. HE SAID THAT NONE OF ABOVE HAD YET TAKEN SHARP RISE FROM CANADIAN VIEWPOINT BUT THAT THIS IS WHAT HE EXPECTED IN FUTURE.

4. ON QUESTION OF GENERAL CREDIT-WORTHINESS OF EE
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COUNTRIES, SENIOR EDC ECONOMIST RESPONSBILE FOR SUCH EVALUATIONS TOLD EMBOFF THAT HE STILL CONSIDERED EASTERN EUROPE VERY SAFE AREA AND EMPHASIZED THAT:

-- EE DEFICIT MUST BE SEEN IN "WORLD CONTEXT" OF RISING DEFICITS AMONG LDC'S AS WELL AS MANY INDUSTRIALIZED COUNTRIES;

-- CENTRALIZED ECONOMIES AND UNBLEMISHED RECORDS OF EE COUNTRIES REMAIN MAJOR POSITIVE FACTORS DESPITE FACT THAT NORTH KOREAN EXAMPLE HAS SHAKEN SOME FAITH IN RELIABILITY OF CENTRALIZED ECONOMY;

-- EE COUNTRIES BENEFIT FROM UNDERLYING PREMISE THAT FOR POLITICAL AND IDEOLOGICAL REASONS MOSCOW WOULD NOT ALLOW MAJOR DEFAULT BY EUROPEAN COMMUNIST ALLY;

-- EE COUNTRIES CAN PERHAPS TOLERATE HIGHER RATIO OF HARD CURRENCY DEBT THAN MANY WESTERN ECONOMIES BECAUSE ONLY FRACTION OF TOTAL TRADE, GENERALLY IN NON-ESSENTIALS, IS IN HARD CURRENCY, THUS ALLOWING FOR GREATER FLEXIBILITY AND BELT-TIGHTENING IN MEETING OBLIGATIONS.

INTEVIEWEE CAUTIONED THAT LAST POINT WAS ONLY "REASONABLE THEORY" WHICH, TO HIS KNOWLEDGE, HAD NOT YET BEEN STUDIED IN DEPTH, AND THAT ABOVE COMMENTS DO NOT APPLY TO YUGOSLAVIA WHICH IS EXCEPTIONAL IN ALL CIRCUMSTANCES.

5. ONE SHOULD NOTE THAT GRAIN REMAINS MAJOR PORTION OF CANADIAN EXPORT TO EASTERN EUROPE. RECENTLY-COMPILED FIGURES FOR CY 75. SHOW THAT OF TOTAL \$244.6 MILLION IN EXPORTS TO EASTERN EUROPE (INCLUDING YUGOSLAVIA) AND \$408.9 MILLION TO USSR, 67 PERCENT AND 86 PERCENT RESPECTIVELY ACCOUNTED FOR BY GRAIN SALES. ALTHOUGH CANADIAN WHEAT BOARD IS NOTORIOUSLY SECRETIVE ON PRICES AND CREDIT-TERMS OF SALES, NONE OF OFFICIALS INVIEWED WAS AWARE OF ANY RESCHEDULING REQUESTS ON GRAIN PAYMENTS AND EDC OFFICIAL COMMENTED THAT POLAND'S EXCELLENT RECORD IN GRAIN PAYMENTS LED IN PART TO EXTENSION OF CONFIDENTIAL

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OTHER CREDITS. ENDERS

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